



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 10/16/2002

GAIN Report #MX2147

Mexico

Agricultural Situation

Weekly Highlights & Hot Bites, Issue #35

2002

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Report Highlights:

U.S. Wheat Shipment May Have Fungus*Usabiaga States That Agricultural Armor Measures Will Be Announced Soon*Mexican Agricultural Costs Of Production Higher Than U.S. *Fox Vows To Cut Power Costs

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Mexico [MX1], MX

Welcome to Hot Bites from Mexico, a weekly review of issues of interest to the U.S. agricultural community. The topics covered in this report reflect developments in Mexico that have been garnered during travel around the country, reported in the media, or offered by host country officials and agricultural analysts. Readers should understand that press articles are included in this report to provide insights into the Mexican "mood" facing U.S. agricultural exporters. Significant issues will be expanded upon in subsequent reports from this office.

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U.S. WHEAT SHIPMENT MAY HAVE FUNGUS

A U.S. wheat shipment sent to Mexico is being investigated for contamination from Karnal bunt, a fungus that reduces wheat quality and can disrupt trade based on importers' fears that it will spread. Mexican officials said they found Karnal bunt in a wheat shipment from Illinois, and U.S. Department of Agriculture (USDA) officials are investigating the grain, said Jim Rogers, a spokesman for the USDA's Animal and Plant Health Inspection Service. USDA is seeking documents from Mexico to verify findings, Rogers said. A national USDA survey this June 7 to July 17, 2002. Karnal bunt is a non-toxic fungal disease with a sour, fishy odor that reduces grain quality. "Until we know more, we really cannot judge how serious this is," Rogers said. He also said he did not know the variety of wheat under suspicion. Illinois mostly produces a soft, red winter wheat used in breads, cakes and pastries. USDA was first informed of the potential contamination in a letter dated September 24, 2002, from Mexican officials, according to Rogers. Officials in Mexico said they had detected the fungus in a wheat shipment when it arrived at the port at Coatzacoalcos Veracruz, Mexico, on August 3, 2002. (Source: *The News*, 10/11/02)

USABIAGA STATES THAT AGRICULTURAL ARMOR MEASURES WILL BE ANNOUNCED SOON

The Secretary of Agriculture, Javier Usabiaga, stated that by the end of this month, he will announce a series of measures oriented to protect Mexican agricultural growers against the new U.S. Farm bill. During an interview with members of the Democratic Revolutionary Party (PRD) in the Senate, Usabiaga said that during the next few days he will continue to receive proposals and suggestions by the involved parties to integrate their suggestions into this agricultural armor plan. Usabiaga explained that, through a frank and open dialogue with PRD Senators, he was apprised of the details of legislators' proposals and their urgent calls to help Mexican agriculture so that it does not become a crisis. At the same time, Demetrio Sodi de la Tijera, a PRD Senator, indicated that during this meeting they discussed issues on "agriculture armor" proposed by the Government of Mexico, as well as the new U.S. Farm bill. The Senator warned that while the proposed agriculture armor will be useful for certain agricultural commodities, others, like corn, sorghum, soybeans and rice, are not being considered as part of the new armor plan. "First of all, we have to protect Mexican corn growers. Although the supports that they receive per ton are higher than those that the U.S. corn growers receive, the yields and production in the United States are multiplied by ten, while in Mexico it is multiplied

just by one or two," he said. Furthermore, Sodi de la Tijera stated that if current Mexican supports, which are very expensive, do not increase yields, any advances in agriculture or in fighting poverty will not be reached. The Senator pointed out that Usabiaga agreed on several points but that no agreement was reached regarding specific proposals for the agriculture sector. (Source: *El Financiero*, 9/20/02)

MEXICAN AGRICULTURAL COSTS OF PRODUCTION HIGHER THAN U.S.

Several leaders of agricultural groups are voicing that the agricultural sector of Mexico is at the border of a collapse due to the increase of imported products, mainly from U.S. origin, and also due to the impossibility of competing with U.S. producers that will receive subsidies for US\$190 million in the next ten years. For one, the President of the National Association of Agro-Trading Companies, Mr. Victor Suarez, considers that Mexico is at risk of losing its food sovereignty, and therefore, is calling for a moratorium on the tax phase-out on agricultural products. Also, Mr. Armando Paredes, President of the Consejo Nacional Agropecuario, CNA, (Mexican Farm Bureau) indicates that the opening of the market has been adverse to the pork and poultry sectors, as U.S. producers receive highly subsidized feedgrain and can sell meat at low prices. On the other hand, Mr. Cesar de Anda, President of the National Poultry Association (UNA), indicates that due to the Mexican high costs of production, the domestic poultry industry will be at a disadvantage with the U.S. competitors. Poultry meat costs of production are 64.8 percent higher than U.S. costs, and egg production costs are 21-percent higher than U.S. costs. Therefore, the President of UNA asked the Mexican government for a safeguard on poultry leg quarter imports. Current NAFTA tariff imports for poultry meat are 49.4 percent and 9.5 percent for egg imports. However, for 2003 there will be no tariffs. Therefore, without this measure, 30,000 jobs directly related to this industry will be lost in 2003. Poultry producers indicate that the problem is not a lack of efficiency in the industry, but of competitive conditions offered by the country. Mexican producers need more support for feedgrain purchasing, long-term financing, as well as energy and fuel tariffs similar to those of its competitors. (Source: *Reforma*, 10/05/02 and 10/14/02)

FOX VOWS TO CUT POWER COSTS

President Vicente Fox said he will issue a decree reducing the cost of electricity in rural zones so farmers can be more competitive. "With this action, we are assuring Mexican (agricultural) producers will not be at a disadvantage when it comes to power costs," local media reported Fox saying. Fox said the decree will be issued "soon" and will reduce the cost of electricity to 30 Mexican cents (US\$.30) per kilowatt hour in the countryside. "I want to say to you that this rate is competitive, and is lower than rates producers have in the United States, or in any of our trading partners with whom we compete," Fox said. (Source: *The News*, 10/10/02)

PRESIDENT TO BOOST DOMESTIC ECONOMY AS HEDGE AGAINST RECESSION

President Vicente Fox has outlined a plan to inject US\$45 billion into the domestic economy as a hedge against a possible recession triggered by the country's biggest trading partner, the United States. In a speech Monday, October 14, 2002, at a convention of stock brokers, Fox said his economic strategy was aimed at boosting internal investment "until our foreign markets are once again registering growth." This would involve, he pledged, "mixed investment from the public

and private sectors next year" worth US\$45 billion which would represent 4.5 percent of GDP and be spent on highways, drinking water, hospitals, universities, housing, petroleum production and petrochemicals. Fox argued that the equities markets would play a key role in kick-starting the Mexican economy by channeling savings towards productive investment. "I am confident that the stock exchange will not ignore this important opportunity," the president said. As part of the scheme, the government plans to promote the construction of 550,000 new homes which will address the country's housing shortage and provide tens of thousands of new jobs. (Source: *The News*, 10/16/02)

REPORTS SUBMITTED RECENTLY BY FAS/MEXICO CITY

REPORT #	TITLE	DATE
MX2143	Weekly Highlights & Hot Bites, Issue #34	10/9/02
MX2145	Strawberry Annual Report, MY 2002/03	10/15/02
MX2146	Annual Dairy Report	10/16/02

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